

**Nebraska Farm Bureau Federation**

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June 19, 2003

Mr. Tess Butler,
Grain Inspection, Packers and Stockyard Administration
USDA – Room 1647-S
1400 Independence Ave., S.W.
Washington, D.C. 20250

Dear Mr. Butler:

On behalf of the members of Nebraska Farm Bureau Federation, I would like to offer these comments in regard to the scope and approach of the \$4.3 million study authorized by the 2002 Farm Bill on livestock markets to be conducted by the Grain Inspection, Packers and Stockyards Administration (GIPSA).

As a state that ranks 2nd in the nation in cattle on feed, 1st in red meat slaughter and 7th in number of hogs, we believe that the scope and the results of the GIPSA study will be very important as we develop policy solutions to insure a competitive market structure for livestock producers. The livestock market structure is becoming more integrated and concentrated due to an ever-increasing consumer driven market and Nebraska livestock producers are very concerned about price discovery and transparency issues when selling their animals.

The following is a list of recommendations from Nebraska Farm Bureau that we think should be included in the GIPSA livestock market study:

Packer Ownership: We believe that packer ownership of livestock needs to be defined and thoroughly analyzed to determine its effects on market price discovery, market performance and the independence of producers. Nebraska Farm Bureau strongly supports a ban on packer ownership. We believe packer ownership of livestock gives them the opportunity to manipulate the market and places an indirect ceiling on the market that could minimize pricing opportunities for producers. While estimates vary within the industry, we believe the current levels of ownership by packers (approximately 8 percent for cattle and 18 percent for hogs) provides the easiest form of captive supply for packers to unduly influence market prices.

Livestock Contracts: While packer ownership is a very emotional issue with our members, we think the larger issue that needs to be addressed in the changing market place for livestock is how can we price livestock contracts in a competitive fashion. Consumers will continue to be the driving force behind the need for more coordination and information flow throughout the production and marketing chain. The only way livestock producers can provide what the consumers wants is to allow producers to enter into contractual or marketing arrangements. The

GIPSA study must thoroughly suggest alternatives for the industry so that contract prices are discovered on competitive market conditions rather than a thinner and thinner cash market.

Captive Supplies: The study by GIPSA should include investigations of how packers use captive supplies to influence spot markets and marketing contract prices. In order to address the overall goal of creating a competitive market system, we need to define what captive supplies are and then suggest certain standards for livestock contracts that avoid the pitfalls associated with captive supplies. Nebraska Farm Bureau believes that captive supplies should be defined as packer-owned livestock and livestock that have been contracted and committed to only one buyer. Eliminating the ability of packers owning livestock would be the first step in dealing with the negative side of captive supplies. The second step in addressing the downside of captive supplies is to institute certain contract standards to enhance transparency and price discovery with livestock contracts.

Pricing Contracts: The key ingredient for creating a competitive market structure in the livestock industry is analyzing the various types of livestock contracts in the market place now and then determine what degree these contracts reflect economic conditions that affect market prices. For example, we think the GIPSA study should examine market impacts on whether or not livestock contracts need to have a negotiated base price before the animals are committed for delivery. Secondly, the study should review possible contract standards that enhance transparency and price discovery.

Enforcement of the Packers and Stockyards Act: The Packers and Stockyards Act is intended to prohibit packers from unfairly discriminating in the way they pay for livestock by colluding to manipulate prices or by using market territory to force sellers to accept lower prices. The study should look at ways to reform the Act and to redefine its authorities to ensure the purpose of the Act is met.

Agricultural Fair Practices Act: The Agricultural Fair Practices Act deals with specific kinds of unfair trade practices involving coercion of producers in bargaining with companies and with joining marketing associations. We believe producers need stronger negotiating powers as we move into a new era of marketing livestock. The act needs to be strengthened to require active enforcement by the USDA or Department of Justice, to increase the penalty violations of the act and to enhance opportunities for producer groups to join together to negotiate with processors.

Retail Pricing and Price Spreads: We believe that retail pricing red meats continues to have more and more impact on the prices producers receive at the farm gate. The study should include a complete analysis as to consolidation of the food retail industry and the effect that has on price discovery and prices received by livestock producers. We think this segment of the study should also entail factors influencing large swings in the farm-wholesale and the farm-retail prices spreads.

Ways to Strengthen Anti-trust Laws: The study by GIPSA should also include possible ways to strengthen anti-trust laws so that they better protect producers from monopolistic practices. Current anti-trust laws seemed to be focused on their impact on consumers and we believe

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modifications should be considered to address any negative impacts consolidations may have on producers of products.

The market place in the livestock sector is shifting and producers are really struggling to get a fair valuation for the animals they produce. Producers continue to lose more of the consumer dollar paid at the retail counter, and the challenge for livestock producers is to develop innovative ways to recapture some of that retail dollar. The challenge for the livestock industry is to assure a competitive market system for livestock producers in an industry that is undergoing a huge structural change. Hopefully, your study will provide livestock producers with an unbiased review of the effects packer ownership and captive supplies have on the marketplace and will suggest several policy alternatives to create a competitive market structure for livestock producers.

Thank you very much for your consideration of these comments.

Sincerely,



Keith R. Olsen
President

cc: House Ag Committee Subcommittee on Livestock and Horticulture
Nebraska Congressional Delegation
NFBF Board of Directors